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The Chinese Economy in 1990 and 1991: Uncertain Recovery

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The Chinese Economy in 1990 and 1991: Uncertain Recovery

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This paper was prepared by the Central Intelligence Agency for submission to the Subcommittee on Technology and National Security of the Joint Economic Committee, Congress of the United States.

The Chinese Economy in 1990 and 1991: Uncertain Recovery

Summary

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used in this report.*

China is emerging from its austerity-induced economic slump with strong, if uneven, industrial growth. A large infusion of credit begun in late 1989 had a palpable stimulative effect on industrial production; after posting no growth during the first quarter of 1990, the value of industrial output steadily increased until it reached a 14.2-percent annual rate during the fourth quarter. Annual grain output increased almost 7 percent to a record 435 million metric tons—China's second consecutive bumper crop—because of good weather and higher state procurement prices.

Beijing relied heavily on export growth, which reached more than 18 percent in 1990, to help stimulate its economic recovery. Unlike its Asian neighbors Japan, South Korea, and Taiwan—which during the last several years have looked to domestic markets to generate economic growth and reduce trade surpluses—China has turned its economy outward. The export surge combined with Beijing's tight lid on imports improved China's external finances; Beijing posted a record \$8.7 billion trade surplus in 1990—as compared with a \$6.7 billion deficit in 1989—and a record current account surplus estimated to be about \$10 billion.

China's rapidly growing budget deficit has led the leadership to implement pragmatic measures to ease financial pressures. For example, Beijing has raised prices for cooking oil and food staples. It has also effectively devalued its currency approximately 30 percent in real terms since late 1989. This has increased the profitability of exporting, which is allowing Beijing to reduce export subsidies while maintaining competitiveness; Beijing began early this year to eliminate direct export subsidies, a move that could save approximately \$940 million in 1991, according to China's Finance Minister. In addition, this year, for the first time, Beijing is marketing government bonds through an investment syndicate headed by the People's Bank of China; a limited secondary market for bonds will also make bond purchases more attractive.

China's provinces are responding very differently to local economic pressures; some local authorities are experimenting again with market reforms, while other provincial leaders are embracing recentralization. For example, Sichuan Province is experimenting in one locality with free markets in grain trade and agricultural inputs; at the same time, however, Hebei and other provinces are turning the clock back by more aggressively controlling agricultural inputs and socializing services to farmers. Financial reform experiments have slowed in Shenyang, but stock markets have opened in Shenzhen and Shanghai. As Beijing relinquishes more and more

of its management role at the local levels and as rapidly growing exports weaken provincial ties to domestic markets, the central leadership appears less able to influence local policy.

At the national level, we see little appetite for reform in the style of the early 1980s—when communes were abolished and agricultural production was liberalized—or of the mid-1980s—when significant enterprise and trade reforms were implemented. Since gaining control of the economic agenda in late 1988, orthodox leaders in Beijing have “tilted” economic policies in favor of large state-owned enterprises to compensate these firms for costs that have risen because of reforms. Despite preferential access to credit and raw materials, however, state-sector output grew less than 3 percent last year, as compared with the 7- and 12-percent growth rates posted, respectively, by collective and rural enterprises. Moreover, production costs in state-owned firms rose 22 percent last year, while labor productivity increased less than 1 percent. At least one-third of state enterprises operated at a loss, according to government statistics—which may underestimate the problem. The lagging performance of the state sector poses a special challenge to orthodox leaders, who want to enhance its preeminent role in the economy.

Beijing’s reluctance to proceed with comprehensive productivity-enhancing reforms reduces the likelihood China can sustain inflation-free growth. Rather than solve the underlying problems of overreliance on monetary policy and declining economic efficiency, Beijing’s credit antidote will hinder the transition of inefficient firms to more productive activities. Abundant grain supplies, ample stocks of consumer goods, and strict controls on prices over the past year have contained inflationary pressures so far. Inflation will be difficult to control, however, if Beijing’s credit spigots remain open, particularly because there is a high liquidity overhang from last year. Recent price increases for cooking oil and food staples and China’s currency devaluations are also adding to inflationary pressures. Late last year, inflation began to rise and reached double digits in some urban areas.

The leadership’s continued emphasis on export growth without trade liberalization also risks foreign protectionism. Even without comprehensive domestic reforms, China’s export promotion policies could allow it to achieve at least 10-percent average annual growth in exports over the coming decade. Beijing will doubtless continue to focus domestic resources on producing for the foreign market and will continue to employ a blend of administrative and market-oriented policies to encourage factories to export. The complexity of China’s trading system and Beijing’s renewed manipulation of import controls may foster increasing resentment from China’s trading partners, more and more of which are facing growing trade deficits with Beijing.

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The Chinese Economy in 1990 and 1991: Uncertain Recovery

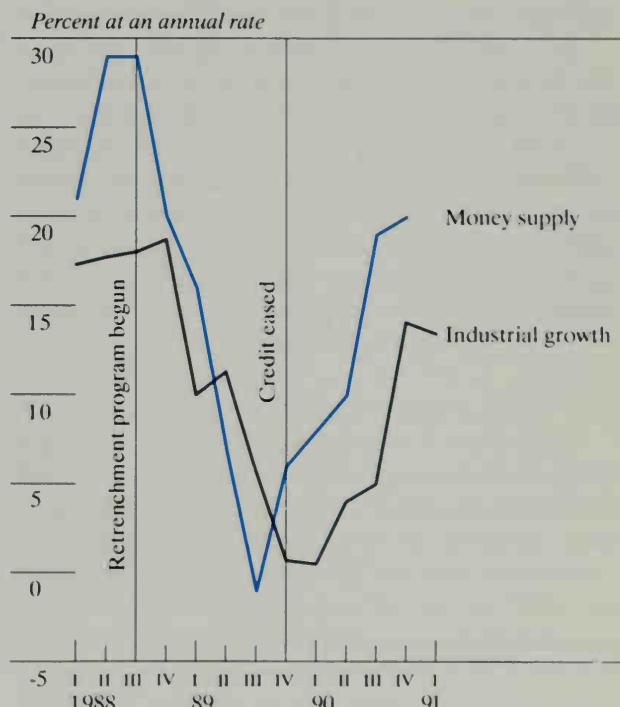
Stimulating Economic Recovery

China reversed its economic policy course again last year as the austerity program implemented in late 1988 began to strangle the economy. Although successful in dampening overheated industrial output from an annual rate of 18 percent in 1988 to 7 percent in 1989 and in reducing inflation from 27 percent in the first quarter of 1989 to 7.4 percent in the fourth quarter, austerity-mandated cutbacks in bank credit created massive debt defaults among cash-starved enterprises, depressing demand and causing inventories to soar.¹ Slower industrial growth also prevented government revenues from keeping pace with increased subsidies to workers and financially ailing state enterprises, sharply increasing Beijing's budget deficit in 1989 by 40 percent to nearly \$7 billion. Growing inventories and lagging labor productivity contributed to rising production costs and idled scores of factories, pushing up unemployment.

As economic costs mounted, in early 1990 Beijing increased credit to large state firms, lowered interest rates on bank loans, and loosened restrictions on capital construction. Beijing also eased access to credit and raw materials for the nonstate sector, which had borne the brunt of Beijing's policies that targeted preferential treatment for state enterprises. By yearend, Beijing had pumped a record \$44 billion in new bank credit into the economy. The stimulative effect of the increased credit on industrial production

¹ Most figures cited in this paper are official Chinese statistics. They are reported because they provide useful indications of the direction and magnitude of economic performance even though collection techniques are sometimes crude, local officials have been known to deliberately distort data, and some estimation techniques are questionable. For example, annual estimates for retail price inflation probably understated the true rate in 1988 and 1990 and overstated the true rate in 1989 because authorities apparently averaged monthly inflation rates (calculated by comparing the price index in each month with the index in the corresponding month of the previous year) to derive the annual estimates. Also see appendix A for a discussion of estimating China's GNP. For a discussion of the reliability of Chinese statistics, see "Allocation of Resources in the Soviet Union and China," Part 14, executive sessions 14 April and 7 July 1989, Subcommittee on National Security Economics, Joint Economic Committee, pp. 208-212.

Figure 1
China: Money Supply and Industrial Growth, Quarterly

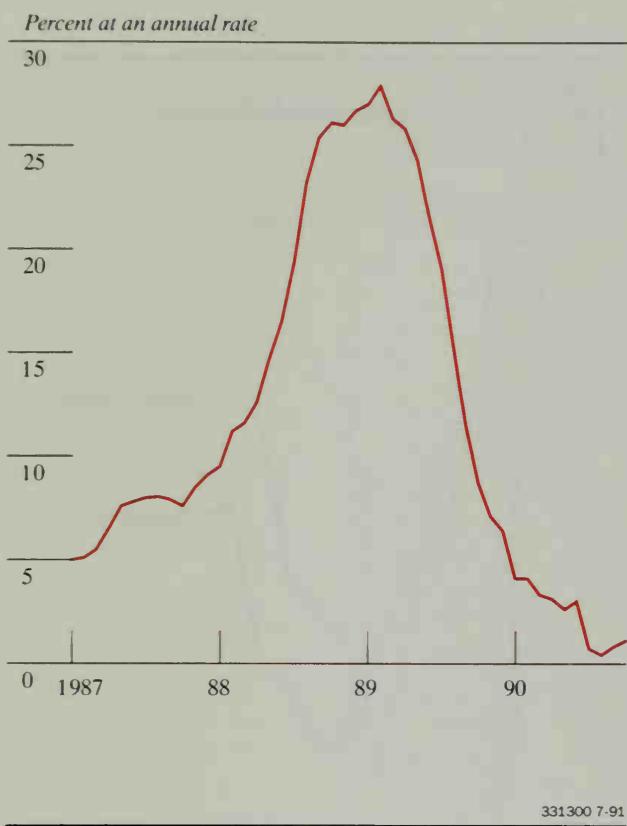


Source: Official Chinese statistics and
IMF International Financial statistics

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was palpable. After posting no growth during the first quarter, the value of industrial output increased 4.1 percent in the second quarter, 5 percent in the third quarter, and 14.2 percent during the fourth quarter; for the year as a whole, industrial output including enterprises at and below the village level grew 7.6 percent. During the first five months of this year, industrial output has continued to register double-digit growth, increasing 13.3 percent. Overall, the economy registered 5-percent real growth in 1990, up

Figure 2
China: Inflation, 1987-90



from the nearly 4-percent GNP growth posted in 1989, but still the second-lowest growth in a decade. Inflation fell to an annual rate of 2 percent in 1990, down from an annual rate of 18 percent in 1989.

Bumper harvests—the result of good weather and higher state procurement prices—contributed to the country's economic recovery as production of all major farm products increased in 1990. Grain output increased almost 7 percent to a record 435 million metric tons, China's second consecutive bumper crop; output of cotton increased 18 percent, oil-bearing crops expanded 26 percent, and sugar crops were up 24 percent. Overall, the gross value of agricultural production increased nearly 7 percent for the year, almost twice the government's 4-percent growth target.

Turning to Export-Led Growth

Rapid export growth has also spurred the economic recovery. Unlike its Asian neighbors Japan, South Korea, and Taiwan—which during the last several years have looked to domestic markets to generate economic growth and reduce their trade surpluses—China has turned its economy outward. In 1989, Beijing exempted the export sector from austerity policies and spurred exports by giving factories that produce for export priority access to credit, raw materials, and energy. Likewise, Beijing devalued its currency against the US dollar 21.2 percent in December 1989 and 9.6 percent in November 1990.² As a result, China's exports increased more than 18 percent to \$62.1 billion in 1990, making China the 14th-largest exporter in the world, up from 23rd place at the beginning of the decade. Over the past decade, China's exports have expanded on average 13 percent annually—a rate matched during the period only by South Korea, Hong Kong, and Taiwan among major traders.

The December 1990 central committee plenum communique stated unequivocally that the task of promoting exports would remain a top priority during the coming decade. In addition, China apparently adopted a new round of trade reforms as of January 1991 designed to stimulate exports while reducing the state export subsidy burden. Details are scant and often contradictory, but the initiative reportedly permits exporters and local authorities to retain up to 80 percent of their foreign exchange earnings; the norm previously was 25 to 35 percent in most sectors, with higher rates prevailing in China's special economic zones and in priority industries such as textiles and electronics.

The United States—crucial to China in the first half of the decade primarily as a source of technology and training—has emerged as China's foremost export

² Beijing has devalued its currency roughly 80 percent in real terms over the past decade; one-third of this was accomplished with these two devaluations. Beijing's state-set rate now differs from the quasi-market rate in China's foreign exchange swap centers by less than 10 percent.

China, Hong Kong, and Taiwan: The Integrated Economy

Hong Kong and Taiwan businesses have invested about \$9 billion in south China during the last four years, almost three-fourths of the total foreign investment paid in during the period. Much of Hong Kong's \$7 billion investment has gone to labor-intensive light industries producing consumer goods—such as textiles, footwear, electronic products, and toys—that the territory can no longer produce at competitive prices because of labor shortages and rising production costs. Taiwan firms are grappling with similar problems, plus environmental restrictions and a 30-percent appreciation of the Taiwan currency against the US dollar since 1987. About three-fourths of these firms' investment in China last year was in labor-intensive, low-technology industries.

Hong Kong and Taiwan investments are a key ingredient to China's growing trade success. The transfer of labor-intensive industries to China is also partially responsible for the \$3 billion drop in total Taiwan and Hong Kong exports to the United States since 1987. The shifting export pattern is more dramatic in particular product lines. For example, China's share of US footwear imports rose from 2 percent to 15 percent in the last four years, while Taiwan's share fell by half to 16 percent. At the same time, China's market share of baby carriages, toys, and sporting goods doubled to 25 percent, while Hong Kong's plummeted from 11 percent to 3 percent.

The use of southern China as an export platform is spurring rapid growth in trade among the three economies. Hong Kong firms last year exported more than \$6 billion worth of goods to China—primarily

raw materials and semifinished components—for use in producing exports. Taiwan's exports to China jumped 13 percent last year to \$3.3 billion; almost 70 percent were industrial raw materials and components, such as electric motors.

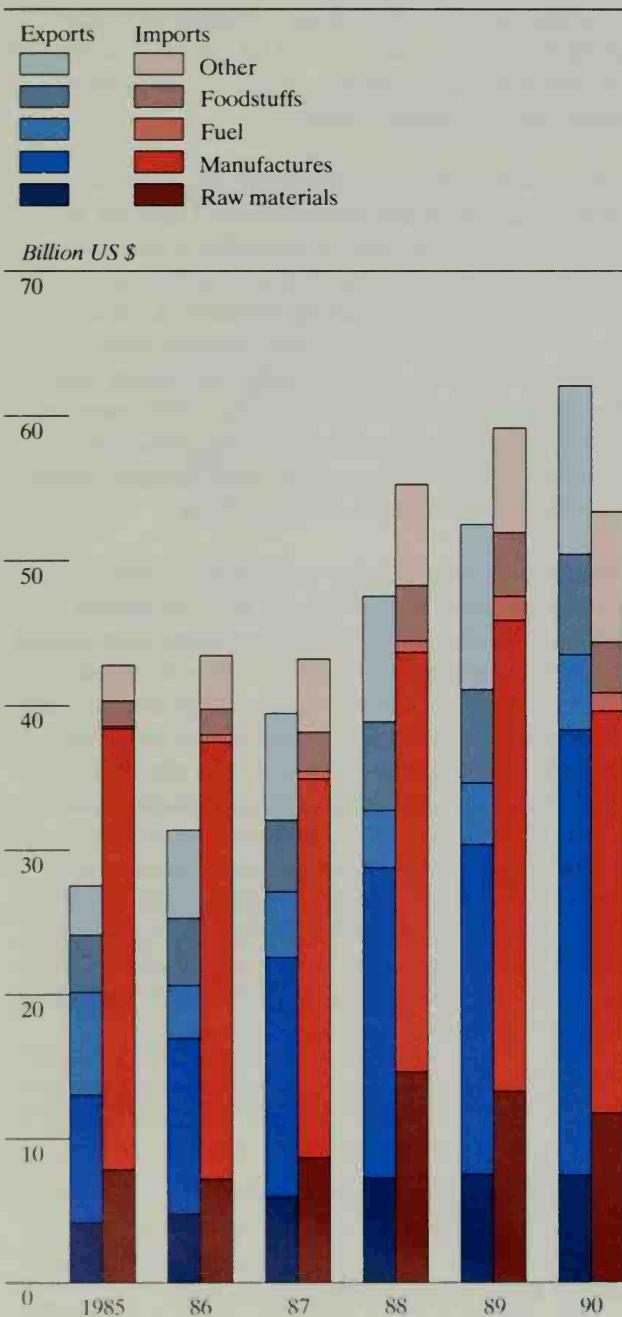
The groundwork for further economic integration is being laid. The Hong Kong-Taiwan Chamber of Commerce, for example, is providing trade and investment information and financial assistance to Taiwan firms interested in doing business in China. Taipei will soon allow Taiwan's private banks to establish branches in Hong Kong that would give it a key role in fostering trade after the 1997 transition, and Taiwan investors are reportedly preparing to establish a bank in Hong Kong with Chinese partners to finance Taiwan investment in China.

Although Taiwan and Hong Kong have shifted a portion of their trade surpluses with the United States to China, the gains from merging their capital, technology, managerial skills, and marketing expertise with low-cost Chinese labor will probably cause the combined trade surplus of the three economies with the United States to grow during the 1990s. Last year their combined trade surplus with the United States of \$27 billion was equivalent to 60 percent of Japan's. In addition to increasing the quality and variety of Chinese exports, labor-intensive investments in China will free up Taiwan labor for high-technology industries such as semiconductors and aerospace parts, and Hong Kong labor for marketing, design, engineering, and financial services.

market. China's exports to the United States expanded on average more than 30 percent yearly throughout the 1980s, 10 times as fast as China's purchases from the United States. Last year, Chinese exports to the United States increased 27 percent to \$15.2 billion—accounting for nearly one-fourth of China's foreign

sales—while US merchandise exports to China fell 17 percent to \$4.8 billion, boosting the US trade deficit with China to \$10.4 billion. (See appendix B for an overview of China's bilateral trade ties.)

Figure 3
China's Total Trade,
1985-90



Beijing began building a strong export base with the introduction of productivity-enhancing agricultural and industrial reforms in the 1980s, the dismantling of much of the central trade bureaucracy, and the provision of financial incentives—such as the ability to retain foreign exchange—that encouraged manufacturers to export. Moreover, imported goods raised factory productivity and product quality; Chinese statistics indicate that during the past decade China imported nearly \$30 billion worth of technologically advanced machinery, shifting gradually from direct purchases of complete sets of equipment to technology-licensing arrangements and cooperative-production ventures that transferred foreign technical and managerial know-how as well as hardware. The impact of China's open door has been particularly pronounced in coastal areas, where 90 percent of the foreign investment and more than three-fourths of China's trade activities are centered.

The leadership's desire to push exports almost certainly was a factor in easing the 1989 austerity measures aimed at reining in rural enterprises, whose foreign sales accounted for one-fifth of China's total exports last year. Indeed, Beijing's incentives—such as preferential access to credit for rural enterprises that export—are encouraging specialization in labor-intensive light industrial goods and are fueling an expansion of rural industries that specialize in consumer goods. The dynamic nonstate sector has become an increasingly important source of exports; according to the official press, China now has more than 300,000 export-oriented rural enterprises, up from just 1,500 in 1980. Rural enterprises are particularly important to the textile sector and, according to Chinese press reports, in 1990 produced nearly three-fourths of China's exported garments.

Last year China's overall imports contracted 10 percent to \$53.3 billion, as Beijing increased import restrictions to protect faltering domestic industries from outside competition. Beijing began reasserting central control over imports in 1988 to improve its worsening trade deficit. For example, Beijing reduced by one-third the number of authorized foreign trade corporations and began to require central approval for

Source: Chinese Customs statistics

purchases of key commodities such as grains, sugar, steel, fertilizer, petroleum, timber, cotton, and pesticides. The number of goods requiring import licenses or subject to import bans was increased, and tariffs on more than 100 items—mostly consumer goods—were boosted. Beijing also broadened the scope of import substitution regulations. (See appendix C for a chronology of Beijing's trade recentralization measures.)

The export surge combined with Beijing's tight lid on imports in 1990 to improve China's external finances; Beijing posted a record \$8.7 billion trade surplus—as compared with a \$6.7 billion deficit in 1989—and a record current account surplus estimated to be about \$10 billion. China's foreign exchange reserves by yearend reached \$28.6 billion, more than double the level posted immediately after the Tiananmen crisis in June 1989. Continued strong export growth during the first quarter of 1991—foreign sales rose 24 percent—despite a 12-percent rise in imports helped boost China's foreign exchange holdings more than \$7 billion in the first three months of this year to nearly \$36 billion—equal to more than eight months of import coverage and twice what Beijing needs for exchange rate management.

China's external accounts were also strengthened by increased foreign investment and a resurgence of tourism receipts. Last year, China signed more than 7,000 new investment contracts valued at \$6.6 billion, surpassing previous annual records for both volume and value. Investors from the United States, Japan, and Western Europe remain cautious about large Chinese projects, but contracts signed by Taiwan businessmen have made up for much of the slack. Hong Kong remains China's foremost investor, accounting for nearly two-thirds of the foreign investment, though new investments from Hong Kong fell 36 percent last year. Foreign exchange receipts from tourism also rebounded last year and increased 19 percent to \$2.2 billion, rallying to match the level posted in 1988.

Lending from international financial institutions has also increased, improving China's access to official and commercial financing. World Bank lending is expected to reach \$1.5 billion by the end of the Bank's

fiscal year—exceeding the level reached before Tiananmen—and lending from the Asian Development Bank has resumed. Lending from concessional and commercial sources also rebounded last year. Japan is China's largest source of credit; Tokyo supplied nearly three-fourths of the official development assistance funds China has received and 70 percent of the funds borrowed from commercial sources. Japan's \$5.7 billion credit package, which had been postponed because of the post-Tiananmen sanctions, is now being disbursed. Concessional lending from West European sources has also picked up dramatically. Chinese entities, joint ventures, and PRC companies in Hong Kong borrowed the equivalent of \$5.5 billion from overseas commercial lenders in 1990, a 187-percent increase over 1989. Commercial lending is not back to "normal," however, with country risk as estimated by bankers higher than before Beijing's crackdown on the mid-1989 prodemocracy demonstrations—although lower than during the immediate aftermath.

China's Sick State Sector

Despite the rebound in overall industrial production, China's state enterprises performed poorly in 1990. Annual output growth at state-owned firms increased less than 3 percent last year, as compared with the more than 10-percent average annual growth registered between the introduction of enterprise reforms in 1984 and the implementation of austerity in 1988. Annual production at the country's "double guarantee" enterprises—select firms that are provided preferential access to inputs of raw materials and energy by the government, along with other assistance, in return for pledges of specified output and taxes to the state—fared only slightly better, posting an increase of 3.5 percent. Overall, state-sector output growth significantly trailed that of collectively owned industrial enterprises and rural industries, which posted annual growth rates of 7 percent and 12.5 percent, respectively, in 1990. Despite efforts during the 1980s to invigorate state-owned firms—which produce over half of China's industrial output value—by reforming management and decentralizing decisionmaking authority, production growth at these firms has consistently lagged behind growth at collectively owned and foreign-funded enterprises.

Moreover, state-sector losses more than doubled last year; one-third of China's state-owned enterprises operated in the red, up from roughly one-tenth in 1985. During the first five months of this year, nearly 40 percent of state-owned firms incurred losses. Industrial growth among state-owned firms rose nearly 9 percent during this same period, while state-sector profits declined more than 20 percent, indicating the absence of real productivity gains. These trends—common to socialist economies—pose a special challenge to Beijing's orthodox economic leaders who want to enhance the state sector's leading role in the economy.

Preferential access to credit and raw materials prevented state enterprises from posting an even more dismal performance. Since gaining control of the economic agenda in late 1988, orthodox leaders in Beijing have "tilted" economic policies in favor of large state-owned enterprises to compensate these firms for costs that have risen because of reforms. Competition for energy and raw materials under reform has driven up input costs, and some state firms have even had to occasionally shut down because of material shortages. The large number of pensioners state firms must support and the generally higher worker benefits they offer—including housing and medical care—have also driven up labor costs at behemoth state industries, as compared with the smaller, locally controlled firms.

Last year's lethargic output growth at state-owned firms was due, in part, to a "consumption strike" by China's households. After falling 7.6 percent in real terms in 1989, the real value of retail sales in 1990 was nearly stagnant as savings deposits continued their record climb, increasing by more than one-third overall to more than 700 billion yuan. Institutional purchases accounted for almost three-quarters of the increase in consumer goods sales, a response to Beijing's call for accelerated buying early in the year as part of a campaign to stimulate consumer demand. But a majority of state firms continue to produce unmarketable products for consumers who are becoming more cautious and demanding better quality, leading to record levels of unsold goods piling up in enterprise warehouses and stores. In April 1991, Beijing announced a three-month price reduction on stockpiled consumer goods to boost retail sales; price reductions ranged up to 30 percent.

State-sector operating deficits have been exacerbated by increases in wages that far exceeded improvements in labor productivity, as Beijing assured urban workers of its intention to protect their living standards and financed wage increases for state workers early last year. According to Chinese statistics, the costs of production in state-owned firms rose more than 22 percent in 1990—partly because of long-overdue price adjustments for energy and transportation and new enterprise taxes—while labor productivity increased less than 1 percent. The downward trend in labor productivity growth—it grew only 1.6 percent in 1989—compares unfavorably with the 8.5-percent average annual increase recorded in 1987-88.

Budget Problems Mount

Declining performance at state firms contributed to Beijing's worsening budget deficit and increased pressure on China's banking system to keep chronically debt-ridden state firms afloat. Profit remittances from state enterprises fell more than 18 percent and forced Beijing to squeeze other sectors of the economy for taxes and to boost domestic borrowing to cover the budget shortfall. The 1990 budget deficit soared 38 percent to a record \$9.6 billion; direct bailout costs to money-losing state firms absorbed 18 percent of total government revenues. The large 22-percent growth in total domestic lending last year was probably earmarked partly to cover enterprise losses not redressed by direct subsidies. State firms also relied on loans to finance bloated inventories, pay debts to other firms, meet payrolls, and fulfill tax obligations.

The central government's budget projections for 1991 indicate that expenditures will grow only 5.2 percent this year, more slowly than Beijing's projected 8-percent increase in GNP. Since 1989, expenditures have been expanding faster than the economy, rising 33 percent and 13 percent in 1989 and 1990, respectively, suggesting the assumption that expenditures can actually be kept down is probably overly optimistic. The projected decline in subsidies will be especially difficult to accomplish. Committed to protecting consumers and ailing firms from inflationary pressures, the central government will most likely attempt

The State Budget and Spending Priorities

China's government budget deficit grew 38 percent in 1990 to \$9.6 billion. This follows a 40-percent jump in 1989. China's official deficit remains low by international standards, representing less than 3 percent of GNP in 1990, but taking account of bank loans needed to bail out inefficient firms would raise the share substantially. Although revenues exceeded original targets last year as Beijing strengthened tax collection efforts, expenditures also surpassed projected levels, pushing the deficit to almost twice the anticipated level. Beijing financed the deficit by issuing domestic bonds and borrowing from abroad.

China's 1991 budget calls for a 6.5-percent reduction in the budget deficit. Originally slated to shrink by only 5 percent, delegates to the National People's Congress in March agreed to trim this year's budget deficit by an additional 2 percent—half of which will be generated by an increase in revenues and the remainder saved by an unspecified reduction in expenditures.

The original state budget for 1991 calls for a 6.7-percent increase in revenues—garnered primarily from higher taxes. At the same time, expenditures are slated to increase 5.5 percent with higher spending on defense, key construction projects, agriculture, education, and science. For the second consecutive year, Beijing will postpone payments due on government bonds held by enterprises, public institutions, administrative units, and banks; bonds held by individuals will be honored.

to shift subsidization responsibilities onto enterprises, the banking system, and local authorities—a financial shell game that minimizes the impact on the state budget.

An Opening for Modest Reforms

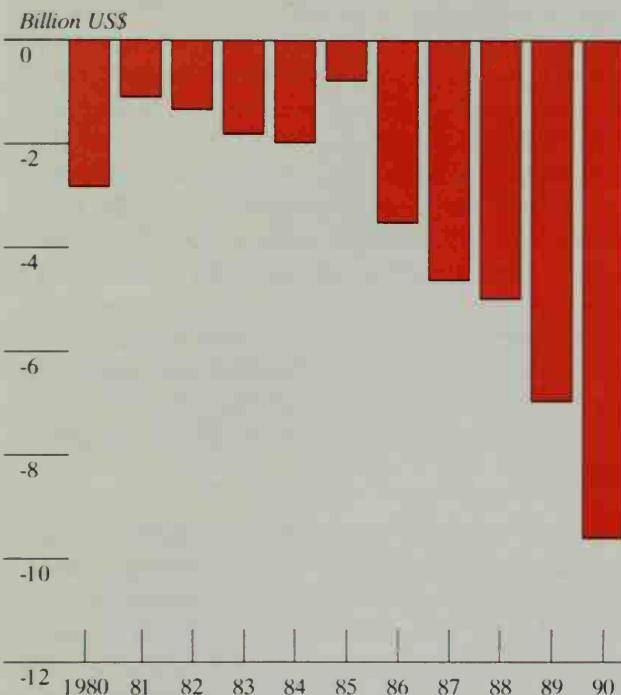
The economic expediency of reversing the state's growing budget deficit has forced the orthodox leadership to accept some pragmatic measures in an effort to narrow the deficit.

Beijing will increase state funding for the military this year by more than 12 percent to 32.5 billion yuan (about \$6 billion). This marks the second consecutive year of real increases in the military budget. Actual Chinese defense spending, however, will probably be twice the announced figure. Profits from arms sales and the earnings of several thousand military-run commercial enterprises represent revenues for the military of several billion dollars annually. Moreover, a large portion of the military's research and development costs are subsidized by state-run research institutes or paid out of funds earmarked for civilian organizations. The military also supplements its living expenses through sideline production of agricultural commodities such as grain, vegetables, and meat.

Subsidies for prices, enterprises, and exports are all projected to decline during 1991, according to this year's budget projections. Last year Beijing spent more than \$7 billion in subsidies to shield workers from price increases and nearly \$11 billion to subsidize state enterprises. This year, increases in state prices for select commodities will reduce price subsidies by more than 12 percent, reflecting a decline of \$870 million. Subsidies to state enterprises are expected to fall nearly 4 percent this year, saving the state treasury more than \$400 million. Another \$940 million will be saved from the reduction in export subsidies, according to Finance Minister Wang Bingqian.

Export Subsidies. Trade reforms introduced in early 1991 set the stage for a reduction in Beijing's export subsidy bill by eliminating direct operating subsidies to money-losing trade corporations and to unprofitable export-producing factories. Beijing has acknowledged that direct export subsidies were equivalent to 4 percent of China's export earnings in 1987 but has provided no estimate of the magnitude of indirect

Figure 4
China's Budget Deficit,^a 1980-90



^a1 US\$ = 5.32 yuan.

the quasi-private foreign exchange swap markets. Between early April and mid-May 1991, however, Beijing effected a nearly 2-percent devaluation through a series of small exchange rate adjustments.

Price Adjustments. In a bid to reduce the financial burden of urban consumer price subsidies, last fall Beijing increased prices for cooking oil, sugar, and cotton cloth. These price increases were followed in the spring of 1991 by substantial price increases for rationed rice, wheat flour, cornstarch, edible oil, and several other staples sold in state stores. Although urban workers are receiving a small direct cash subsidy to lessen the impact of these higher food prices, the upward price adjustments will reduce Beijing's subsidy burden. Last year, price subsidies exceeded \$7 billion, equivalent to 74 percent of China's budget deficit. The increased price for edible oil, for example, puts it on a par with the procurement price—essentially eliminating any consumer subsidy—while the price hikes for rice and wheat flour wipe out about one-third of Beijing's per-unit subsidy. Prices for some key industrial materials have also been adjusted. Earlier this year, the State Council raised prices for assorted steel products and cement 25 to 55 percent. Beijing also abolished the multiple pricing system for steel and cement; steel products are now governed by only two prices—state and local—while cement is governed by a single, nationwide price.

export subsidies. In his budget speech to the National People's Congress in March, Finance Minister Wang Bingqian noted that changes in Beijing's export subsidy policy would save the government roughly \$940 million this year. The series of currency devaluations Beijing has phased in since late 1989 will help accomplish these objectives—the devaluations have brought the official exchange rate, now 5.32 yuan to the US dollar, somewhat closer to the actual cost of producing for export.³ In the past, devaluations were done infrequently, but with fairly large jumps—often accompanied by considerable advance speculation that contributed to destabilizing cash movements on

Financial Reforms. This year, a newly formed investment syndicate composed of nearly 60 financial institutions headed by the People's Bank of China will issue roughly one-fifth of China's 1991 treasury bond issue, according to the Chinese press. The syndicate will market the bonds through retail outlets throughout the country; in the past, Beijing relied on compulsory bond purchases by enterprises and workers. To increase the bonds' marketability, Beijing will also expand the nascent secondary bond market and allow bond holders to sell their bonds before maturity. To integrate securities trading nationwide, in November 1990 China opened its first centralized, computer-based securities exchange in Shanghai, the Securities

³ The devaluations have increased the profitability of exporting and allowed Beijing to reduce direct export subsidies without sacrificing competitiveness.

Trading Automated Quotations System, which will attempt to eliminate the wide disparity nationwide in the buying and selling prices of treasury bonds and other securities.

In December 1990, the Shanghai Securities Exchange (SSE) also began operation. Although primarily a bond-trading facility, the SSE links licensed corporations in six cities and has 30 securities available for trading. During the first four months of 1991, the SSE registered a turnover of more than \$500 million—surpassing the level of over-the-counter securities trading volume in Shanghai for 1990. A stock exchange also operates in the Shenzhen Special Economic Zone. The Shenzhen exchange has five enterprises and 12 stock trading companies listed.

Beijing has also bowed to pressure from various interest groups because it is increasingly dependent on the revenues generated outside the state sector. Premier Li Peng endorsed faster growth for some regions in his economic work report to the National People's Congress in March; these areas most likely include the export-oriented coastal area with the special economic zones and the newly established Pudong Development Zone outside Shanghai. The current leadership is also promoting export-oriented rural industries, limited experiments with stock and securities markets, and expansion of the service sector.

Central Planning and State Ownership Still Linchpins
Despite these pragmatic economic moves to ease financial pressures, comprehensive, market-oriented reforms remain on hold. Unlike many of its East Asian neighbors, moreover, the general thrust of Beijing's policies is to reduce competition. Party plenum documents issued in late 1990 and speeches at the National People's Congress in March 1991 underscore Beijing's determination to maintain a socialist economic framework and to tip economic policy toward the large state industries—at the expense of the nonstate sector, which enjoyed booming growth during the 1980s. The leadership's increased emphasis on central planning for credit, energy, and raw materials provides Beijing an opportunity to reduce sharply inputs to locally run industries. Orthodox leaders in Beijing appear anxious to shield state enterprises from competition with collectives and private firms for materials and markets, at least for the time being.

While anointing the state sector to lead the economy, the leadership has yet to formulate practical prescriptions that address the chronic problems afflicting the large state enterprises. One of the key issues in China's economic policy debate is reorganizing the state sector, for example, into enterprise groups that economically integrate various state firms into Chinese-style conglomerates; this effectively sidesteps the more difficult task of improving the internal workings of state enterprises. Orthodox leaders view enterprise groups as a means to ensure key state-owned enterprises a leading position by incorporating smaller firms as subsidiaries. One danger of this course is that grouping large, healthy firms with weaker entities may create regional or national industrial monopolies that will further undermine competition in the domestic economy and weaken the dynamic role of the nonstate sector. Although some Chinese enterprise groups have already become significant players in the domestic economy and are gaining recognition in international markets as well, many Beijing-orchestrated mergers accordingly have short-term financial objectives rather than economic efficiency goals.

Center-Provincial Relations

The leadership's passive approach to reform at the national level has given local authorities a green light to pursue their own reform agendas. Earlier this year Premier Li Peng invited localities to embark on some "major reform measures" as long as they conformed to the "national reform plan." In an attempt to regulate the various regional reform initiatives, in early 1991 the State Council's Commission for Restructuring the Economic System was assigned the role of coordinating reform proposals and experimentation throughout the country. Two consecutive bumper harvests also provided an opening for agricultural reforms.

Commodity Futures Markets. Since October 1990, China has opened grain futures markets in Henan, Jiangxi, and Hubei Provinces. Postponed when Beijing instituted its retrenchment policies in late 1988, the impetus for opening grain futures markets was rekindled when grain prices dropped sharply after the 1989 bumper harvest and huge amounts of grain were wasted because of poor marketing channels and

Reviving the State Sector: "Quality, Variety, and Efficiency"

Chinese leaders have declared 1991 the year of "quality, variety, and efficiency"—a campaign aimed at boosting state-owned enterprise productivity and adjusting products to meet market demands. The campaign is an interim fix that relies heavily on jawboning to encourage factory managers to cut losses and boost productivity. Beijing is calling for enterprise managers to reduce material consumption by 3 percent, pare administrative expenses by 5 percent, and cut operational losses by half during 1991.

To help meet these targets, Beijing announced 11 measures to improve the business environment, including lowering interest rates on state enterprise loans, forming 100 new enterprise groups to improve production coordination, and giving a few dozen key firms and enterprise groups more foreign trade authority in the longer term. Beijing is also counting on new investments in technical upgrading to eventually improve enterprise competitiveness; Chinese banks have promised to issue more loans over the next five years to support technical upgrading projects at key state firms.

Even before kicking off this campaign in late 1990, Beijing was tilting economic policies in favor of the state sector, diverting resources and credit to state firms—particularly key large and medium-sized enterprises—at the expense of the dynamic semiprivate and rural enterprises. Although these efforts helped pull state firms out of a production slump—state sector output increased 9 percent in the first quarter of 1991—one-third of all state industrial firms continue to operate in the red, according to Chinese press reports. This proportion is roughly the same as reported last summer despite the improvement in output, suggesting that state enterprise difficulties reflect systemic inefficiencies, not just a sluggish economy. The falling profits and revenues at state firms, moreover, are putting pressure on state revenues. Large and medium-sized state-owned enterprises are a chief source of government revenue, and firms are increasingly dependent on bank loans to cover both operating costs and revenue remittances to Beijing.

Without fundamental changes in enterprise operations, managers of state-owned firms are unlikely to achieve efficiency campaign goals. Manager attitudes are still largely shaped by decades of producing according to plan orders rather than market demands. Moreover, managers face a variety of constraints and pressures—some of which reward inaction and inefficiency—that hold priority over Beijing's efficiency admonitions. For example, managers strive to keep labor relations on an even keel and, in many instances, try to maintain shopfloor peace with bonuses and other welfare benefits, even if these incentives are not justified by production gains or enterprise finances.

Managers are also confronting the results of years of eroding finances and shortsighted investment choices. For example, management contracts, implemented since 1987, encourage short-term behavior since managers tend to neglect maintenance and upgrading of plant facilities in order to maximize profits during the contract period. Many state firms, moreover, lack the infrastructure to identify and develop more competitive products—fewer than half of China's large state enterprises have ties to research and development institutes—and many lack experience with market studies that are needed to identify potential niches for their products.

The regime apparently hopes that limited measures—such as the efficiency campaign—will boost state enterprise performance enough that it can avoid more drastic steps, including shutting down deficit-ridden firms, streamlining the state enterprise work force, or privatizing state firms. The accumulated problems of state firms, however—including a bloated, undisciplined work force, aging equipment, and bureaucratic and political interference—may make state managers less responsive to efficiency calls than Beijing recognizes. The limited reform measures the leadership is touting to reform state firms are reminiscent of the approach some East European countries attempted before renouncing the underpinning of socialist public ownership, and they may similarly fail to boost performance in China's state enterprises.

inadequate storage facilities. Futures trading will offer farmers an important signal for crop planting decisions. Although only wheat and rice are currently traded, wholesale markets for other crops, such as corn, soybeans, and cotton, and sideline products such as pork, will also be opened soon. Several provincial governments are also planning to establish small-scale commodity markets for locally produced agricultural products.

Reform Test Points. After a hiatus, Beijing may again be allowing some local reform experiments. For example, this year in Guanghan County, Sichuan Province—where in 1978 China's groundbreaking rural reforms were first introduced—farmers will be allowed to sell any amount of their grain production on the free market or at the government-set protection price. Until now, a minimum of 11 percent had to be sold to the State Grain Bureau at the fixed state price. In exchange for this freedom, the farmers must give up subsidies for agricultural inputs—fertilizer, pesticides, plastic sheeting, diesel fuel—and purchase inputs at market prices. Urban residents in Guanghan County will also lose their grain ration coupons—eliminating their access to subsidized prices at state stores—and will have to buy their grain on the free market. To compensate for the higher prices they will pay, however, many urban workers will receive direct cash subsidies roughly equivalent to the value of the grain coupons they had been receiving.

Provincial decisionmaking authority on a wide range of issues is the consequence of Beijing's unsuccessful attempts to recentralize authority and not through design as during the decade of reform. Last fall, the party plenum was delayed until late December, probably as a result of provincial intransigence over Beijing's proposed revisions to revenue-sharing schemes.

In some regions, greater autonomy has allowed local leaders to experiment, not with reform, but with recentralization. For example, in Hebei and other provinces, the authorities have recollectivized agricultural support; services have been socialized and inputs more aggressively controlled by local authorities. Early this year in Beijing Municipality, local officials published regulations highlighting the pivotal role of agricultural collectives and promoting preferential treatment for rural collectives in credit, raw materials, and energy.

As Beijing relinquishes more and more of its management role at the local levels—for example, making localities underwrite a larger share of their own investment projects—the central leadership will be less able to influence local policy. Beijing's leverage with the provinces will also weaken as provinces reduce their dependence on the domestic market and increase exports.

Risks to China's Future: Inflationary Pressures Growing

Beijing's reliance on credit rather than productivity-enhancing reforms to fuel industrial growth risks renewed inflation. Abundant grain supplies, ample stocks of consumer goods, and strict controls on prices over the past year have dampened some of the inflationary pressures. This year, however, inflation may be more difficult to contain because of the high liquidity overhang from last year and pent-up domestic demand. At yearend, savings deposits reached the equivalent of 40 percent of China's 1990 GNP. Also adding to inflationary pressures are Beijing's modest price reforms—in particular the price increases for cooking oil and food staples implemented over the past few months—and the currency devaluations.

Inflationary pressures will be difficult to contain if Beijing's credit spigots remain open; late last year, inflation began to rise and reached double digits in some urban areas. In the first four months of 1991, China's urban cost-of-living index rose at a 5.6-percent annual rate, almost twice the rate last year. But the need to prop up large state enterprises and the widening fiscal deficit suggest credit allocations in 1991 may surpass last year's level as Beijing's continues to rescue inefficient producers. Losses at state firms continue to mount, and Beijing appears unable to unravel the growing gridlock of interenterprise debt. In May 1991, Chinese officials acknowledged that the debt problem among enterprises is getting worse despite the government's two-year campaign to check its growth.

Without sufficiently developed monetary and fiscal levers to fine-tune the economy, Beijing will remain dependent on credit and exports to maintain industrial growth. Dependence on credit to fuel production may

kick off another boom-bust cycle as increased credit is followed by a clampdown on credit when inflationary pressures mount. The credit antidote also hinders the transition of inefficient firms to more productive activities; credit rescues inefficient producers, worsens inventory stockpiles, and further adds to inflationary pressures. It does not solve the underlying problems of declining economic efficiency and overreliance on monetary policy.

Beijing would probably react to rising inflation with tighter administrative controls—expanded central planning, tough restrictions on investment, tight quotas on bank credit, and price controls—which would further reduce enterprise efficiency, undermine productivity, and slow economic development. Moreover, Beijing's strategy of merging essentially bankrupt companies—with their bloated work forces—with healthy enterprises is likely to introduce an additional drag on efficient production. Preferential policies toward the state sector will also drain resources from the dynamic nonstate sector and lower its contribution to economic growth.

The Uncertainties of Export-Led Growth

The leadership's continued emphasis on export growth without import liberalization risks foreign protectionism. Even without productivity-enhancing domestic reforms, China's export promotion policies could allow it to achieve at least 10-percent average annual growth in exports over the coming decade. Beijing will continue to employ a blend of administrative and market-oriented policies to encourage factories to export:

- Wages in China remain low, and the dynamic nonstate sector has demonstrated its ability to maintain rapid growth even under the adverse conditions of domestic austerity.
- China has immense and still largely untapped potential as a high-volume producer of labor-intensive products at prices well below those offered by South Korea, Taiwan, or Hong Kong. The urban labor-force of China's export-oriented coastal area is larger than the labor forces of Japan and the Asian newly industrializing economies—South Korea, Taiwan, Hong Kong, and Singapore—combined.
- China also has 120 million unemployed, or underemployed, agricultural workers who could be shifted to rural export-producing factories.
- Finally, China's export prospects will be enhanced by the infusion of foreign funds, technology, and marketing expertise it has received in recent years.

Domestic pressures on Beijing to step up imports are mounting. Sharp increases in domestic credit in late 1990 have fueled investment spending and heightened demand for imported capital equipment and raw materials. The record current account surplus and unprecedented level of foreign exchange held in early 1991 may lead to more rapid import growth this year; imports increased at an annual rate of 15.5 percent to \$15.7 billion during the first five months of this year. However, we anticipate that import policies over the course of the coming decade will vacillate between periods of liberalization and tight central control. Following periods of retrenchment, such as in 1988-89, foreign purchases will probably pick up sharply as Beijing loosens controls over imports and foreign exchange to satisfy the demands of domestic industries for raw materials and machinery, or to absorb excess liquidity in the economy. Beijing is likely to retain tight central oversight of imports, however, even as it steps up foreign purchases, expecting that, if it eased controls, imports would surge uncontrollably, prompting a deterioration in the trade balance and a drawdown in foreign exchange reserves. China's five- and 10-year development plans announced earlier this year stipulate that Beijing will strengthen oversight of imports to curtail purchases of luxury goods, avoid imports of products that can be supplied domestically, and eliminate duplicate purchases.

The complexity of China's trading system and Beijing's renewed manipulation of import controls may foster increasing resentment from China's trading partners, more and more of which are facing growing trade deficits with Beijing. Last year, China's trade surplus with the European Community soared 121 percent to \$4.9 billion while its trade surplus with Japan more than doubled to \$5.8 billion.

Appendix A

Estimates of China's GNP

Efforts to measure China's GNP in the 1980s illustrate the difficulty of estimating the size of a Communist economy undergoing market-oriented reform. While few would doubt that China was one of the world's fastest growing economies during the decade, efforts to calculate its size relative to other economies have produced estimates that vary by a factor of 10. The problem is not just that China employs inadequate statistical collection and sampling techniques, but also that rapid, reform-driven changes in the composition and quality of production allow for a wide range of subjective evaluations comparing Chinese and US output. Conventional economic techniques thus probably cannot produce a "right" estimate of the US dollar value of China's GNP, and intuitive approaches are even more suspect.

Over the coming decade, the quality and scope of China's economic statistics are likely to improve significantly. Beijing's support for improving data collection methods, reforms that decontrol prices and increase the role of market forces, and the growth of China's foreign trade will enhance the accuracy of Chinese-currency GNP estimates. Improved estimation techniques, however, may inflate growth rates as Beijing more accurately gauges the dimensions of the large and rapidly expanding nonstate sector. Despite more accurate data, moreover, the debate over US dollar estimates of China's GNP will continue as researchers contend with persistent estimation problems, such as how to account for differences between the quality of Chinese products and similar US goods, and remaining relative price distortions caused by state controls.

Broad Agreement That China Has Grown Rapidly . . .
If figures from China's State Statistical Bureau can be believed, China had one of the world's fastest growing economies during the 1980s. Inflation-adjusted GNP more than doubled from 1980 to 1989, and national income corrected for price increases grew by 120 percent during the same period. Industrial output also grew rapidly. According to official statistics, in

the 1980s average annual growth of industrial output was 6 percent for the state sector, 15 percent for collective enterprises, and more than 100 percent for the dynamic individual enterprise sector. Foreign trade similarly expanded, with exports growing at a 12-percent average annual rate and imports rising 13 percent per year from 1980 to 1989.

Other indicators confirm that China's official statistics are broadly on target when taken as indicators of Chinese *growth*. For example, international trade data corroborate Chinese trade statistics; China became a net grain exporter in 1985 for the first time in more than 20 years because of productivity-enhancing agricultural reforms, and China's tremendous success exporting manufactures similarly could not have been accomplished without rapid growth of domestic light industrial production.⁴

Nonetheless, Beijing's crude statistical estimation procedures may have biased growth estimates upward somewhat during the decade of reform. For example, because of growing industrial specialization, steps in the production process that used to be internal to one firm may now be counted separately if part of the process is subcontracted, inflating gross industrial output measures. Moreover, managers of many rural factories and township and village enterprises may lack the accounting expertise to account for inflation in their production figures, inflating national growth rates. In addition, some cadres deliberately fabricate statistics to attract foreign investment or to avoid political pressure to reach growth targets. A Chinese press report stated that in 1985 pressure to meet agricultural targets forced some local officials to falsify grain production data to avoid losing face.

⁴ Academic economists writing about China generally quote official statistics without qualification, indicating they share the assessment that official statistics provide useful, if not precise, estimates of growth. To the extent Chinese statistics are casting a wider net over the economy, picking up economic activity previously ignored, official growth rates overstate the actual growth.

Reliable series of annual data are scarce, in part, because in 1984 China began to change from reporting economic information according to a socialist "net material product" accounting system—which forced analysts to use fragmentary data to estimate the dimensions of the service sector—to one that included services output. Finally, the rapid growth in nonstate sectors has been poorly monitored because managers of rural and private enterprises often keep fragmentary output records—to shirk their tax obligations or because of their lack of familiarity with sophisticated accounting systems—requiring researchers to make subjective estimates of industrial production outside the state plan.

Although Chinese data remain flawed, we believe that their reliability has increased during the last 10 years as Beijing has increased its ranks of trained statisticians and improved the data collection process. This year, for example, Beijing approved an information-access system that links data stored in the economic information centers of the central government, provinces, municipalities, and autonomous regions, which will speed the processing and distribution of statistical information and make national and local data series more consistent. Indeed, China's growing economic integration with foreign economies has expanded the quantity of its data and provided market-based evaluations of the quality of some Chinese output.

... But Estimates of the Size of China's Economy Differ Widely

China's flourishing foreign trade has made the country a significant force in the world economy, causing analysts to become increasingly interested in international comparisons of the *size* of China's market and its ability to generate further export growth. Some researchers have also used US dollar estimates of foreign economies' GNP as proxies for relative living standards and as social welfare measures. Finally, estimates of a Communist country's GNP in US dollars have traditionally been used as a measure of that economy's ability to support a military establishment.

Efforts to calculate a US dollar value for China's GNP, however, face formidable roadblocks. The need to rely on sometimes questionable Chinese data is a

clear handicap; but worse, there is no universally accepted method for converting Chinese production data into US dollar values. Estimative techniques differ according to ease of calculation or intuitive appeal, as the following survey of methodologies indicates.

The *exchange rate conversion* technique—which transforms the official yuan GNP figure into dollars using the official exchange rate—is popular because it objectively produces a value and is based on readily available official statistics.⁵ According to this method, China's GNP last year was \$330 billion. The exchange rate conversion method has one principal drawback, however, in that the yuan is an inconvertible currency and the exchange rate for Foreign Exchange Certificates—the convertible currency foreigners use in China—is officially determined, applies to a narrow market, and can be revised significantly as Beijing devalues; it did so in December 1989 and November 1990. Many China scholars believe the two devaluations have brought the yuan closer to the level that the market would set—implicitly suggesting earlier GNP measurements by this method were too high—making exchange rate conversion a more acceptable method currently. Market-determined exchange rates, however, measure capital flows and the relative demand for imports and exports, but can be distorted by tariffs, quotas, and other trade barriers. Even under ideal conditions, bilateral exchange rates may fluctuate because of changes in consumers' preferences for imports and exports of goods and assets, causing US dollar GNP estimates to shift while the domestic rate of economic activity remains unchanged.⁶

The *physical indicators method* uses statistical analysis to determine the relationship between social and economic measures—such as infant mortality, adult literacy rates, televisions per capita, and steel production—and GNP in countries where it is believed to be

⁵ For an example of a variation on the exchange rate conversion technique, see *The World Bank Atlas*, Washington, DC: The World Bank, 1990.

⁶ Exchange rate conversions are also used for measuring components of GNP, such as defense spending or the budget deficit.

measured accurately. The values of the same social and economic indicators are then used to predict the GNP of a country for which the indicator data are available, but for which GNP figures are not or are suspect.

The drawback of the physical indicators method is that it assumes the impact of each physical indicator on production is identical across countries—an invalid assumption in China's case. China's command economy has traditionally tried to guarantee a surfeit of profits for large state enterprises by keeping prices of energy and basic materials low and emphasizing output of manufactures. Further, China is a profligate energy waster and much of its steel is of such poor quality that it is not exportable and thus not comparable to that produced elsewhere. Comparisons between China and market economies using energy and steel as indicators would, therefore, overestimate China's GNP. The physical indicators method also disregards quality differences among goods used as physical indicators in different countries, biasing upwards Chinese GNP.

The **purchasing power parity** (PPP) technique tries to measure the value of China's output in US dollars by applying US prices to the output of specific Chinese goods. For example, by multiplying China's total value of wheat production by the dollar/yuan wheat price ratio, the researcher "transforms" Chinese wheat output into US dollars. The GNP figure then is calculated by summing the US dollar value of various Chinese products.⁷

Despite its seemingly straightforward approach, several scholarly independent studies of China's economy have produced aggregate PPP ratios for 1981 that differ by 200 percent.⁸ Goods such as automobiles, clothes, and banking services are rarely identical, and

⁷ For examples of the PPP technique, see "Dollar GNP Estimates for China," CIR Staff Paper No. 59, March 1991; Arms Control Disarmament Agency, *World Military Expenditures and Arms Transfers*, 1987, Washington, DC: US Government Printing Office, 1988; and Summers, Robert and Alan Heston, "The Penn World Table (Mark 5): An Expanded Set of International Comparisons, 1950-1988," *Quarterly Journal of Economics*, May 1991, pp. 327-368.

⁸ For a more detailed discussion of potential discrepancies between PPP studies, see "China's Price Structure: An International Perspective," CIR Staff Paper No. 22, June 1986.

the analyst must make subjective judgments concerning their relative quality. A PPP study that does not adequately account for the inferior quality of many Chinese goods vis-a-vis US output will overestimate the size of China's economy. The crucial role the analyst plays in determining which goods will be included in the study, in setting the level of detail, and in deciding which goods are similar and which are not allows thorough and well-done PPP studies to support strikingly divergent estimates.

A PPP Study

A US Census Bureau study, for example, used the PPP methodology and estimated China's 1981 GNP at \$418 billion.⁹ The study's GNP series for China was produced by a model based on the 1981 input-output table constructed by the State Planning Commission and State Statistical Bureau. Because in 1981 Chinese statistics were based on a "net material product" accounting system that did not include the value of services in output data, the model was adjusted to include a service sector.¹⁰ The study used the PPP price ratios to convert the data into US dollars, then calculated the 1981 GNP estimate for each sector by subtracting flows of intermediate goods in the input-output table that were double-counted in China's gross value of output statistics. The study used this benchmark figure for 1981 to generate estimates for succeeding years using official inflation-adjusted growth rates for each sector.

The major strengths of this approach are that US dollar GNP estimates for China are not affected by fluctuations in the exchange rate, and that benchmark estimates are easily updated using publicly released official growth rates, which probably are reasonably accurate. The methodology, however, may produce exaggerated 1981 benchmark and growth rate estimates. Although the PPP price ratios are derived from a thorough Sino-US price comparison study, the ratios may inflate the size of China's economy because they do not account for all quality differences in

⁹ For a detailed discussion, see "Dollar GNP Estimates for China," CIR Staff Paper No. 59, March 1991.

¹⁰ The Census study based the estimates of output for nonmaterial services on work done in a World Bank study.

	Census PPP Study	Penn World, Table (Mark 4)	Penn World, Table (Mark 5)	Arms Control and Disarmament Agency	World Bank	Official Exchange Rate Conversion
1978	351			216	212	121
1979	377			231	254	130
1980	398	1,598		246	296	140
1981	418			257	320	146
1982	456			281	325	159
1983	502			311	329	175
1984	574			356	343	201
1985	640	2,567		400	347	226
1986	690			430	330	245
1987	761			471	335	272
1988	837		2,530		373	302
1989	868					314
1990						327

Note: The Census study, Penn World, and Arms Control and Disarmament Agency (ACDA) numbers are based on various PPP studies. The Penn World estimates are derived from work on the United Nations International Comparison Project (ICP), under which researchers collected price information from 56 countries. With this data, researchers built price ratios to convert each country's GNP into a common currency unit—international dollars—avoiding the statistical bias caused by basing estimates on a single country's currency.^b The ACDA price ratios also incorporated data from the ICP, but the results are expressed in 1987 US dollars.

World Bank estimates are similar to exchange rate conversions, but the analysts have attempted to account for the impact that domestic inflation relative to that in the rest of the world would have had if Beijing allowed its exchange rate to float. Numbers in the last column are official data converted at the exchange rate of 5.32 yuan to the dollar.

output. Moreover, the official growth rates used to move the benchmark figure forward are probably too large because they reflect the dramatic expansion in rural industries, which often fail to account for inflation in their growth statistics.¹¹

^a The Census study partially corrected the biased growth rates. Chinese agricultural consumer prices are relatively lower compared with US figures than are Chinese manufacturing consumer prices; consequently, yuan/dollar price ratios inflated China's agricultural sector more than its manufacturing sector. During the 1980s, official growth rates for the agricultural sector were lower than those for the manufacturing sector, producing a slower total growth pattern in the Census study. As a result, average annual growth from 1978 to 1989 was 8.6 percent in the study, as compared with an official estimate of 9.1 percent.

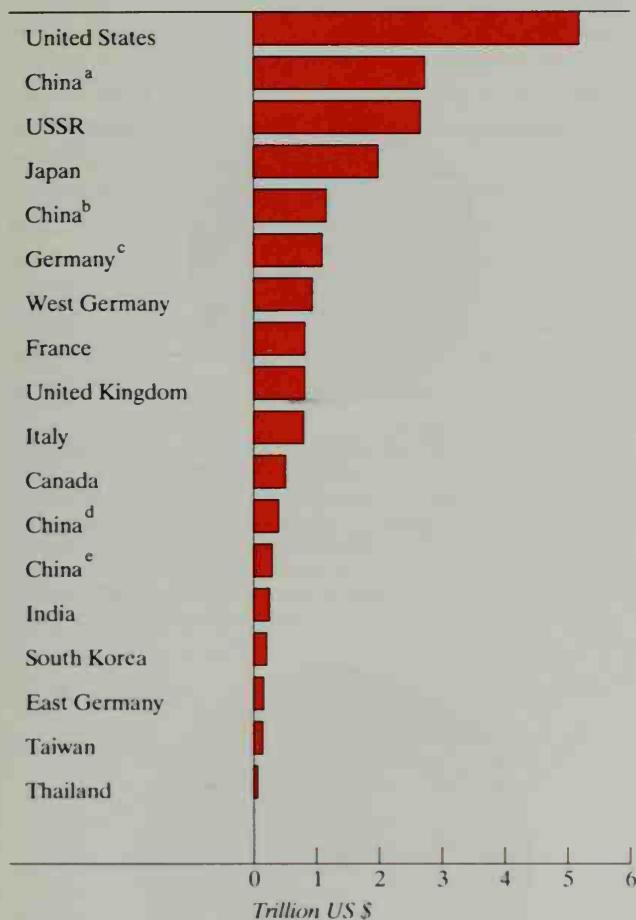
^b All figures were produced by multiplying per capita GNP levels by population estimates.

^b International dollars have the same purchasing power over total GDP as US dollars—that is, 100 billion international dollars of GDP can "purchase" \$100 billion of US GDP. The purchasing power of international dollars over components of GDP, however, is determined by average international prices rather than US prices. Researchers employ international dollars in an effort to create a "country neutral" currency. Index number theory and empirical studies indicate that choosing one country's currency as the basis for international comparisons produces relatively lower national income account estimates for that country.

Implications

The size and complexity of China's economy combined with the absence of a uniform accounting system will continue to complicate attempts to estimate GNP. Without far-reaching price reforms that rationalize the valuation of output and allow prices to measure quality differences, Chinese output will remain difficult to evaluate even if data collection improves. Conventional economic techniques thus probably cannot produce a "right" series of the US dollar value of China's GNP. Consequently, GNP

Figure 5
International Comparison of 1989 GDP



^a Calculated by multiplying the Penn World (Mark 5) estimate for 1988 real GDP per capita by the 1989 official Chinese GNP growth rate and the US GNP deflator.

^b Calculated by dividing the 1989 Census GNP estimate -- expressed in 1981 US dollars -- by the official population estimate, then multiplying the figure by the appropriate US GNP deflators.

^c The weighted average of East and West German estimates.

^d Calculated by multiplying the World Bank, *Atlas* Methodology, estimate for 1988 per capita GNP by the 1989 official Chinese GNP growth rate and the US GNP deflator.

^e Exchange rate conversion.

Source for Non-China estimates: *Handbook of Economic Statistics*

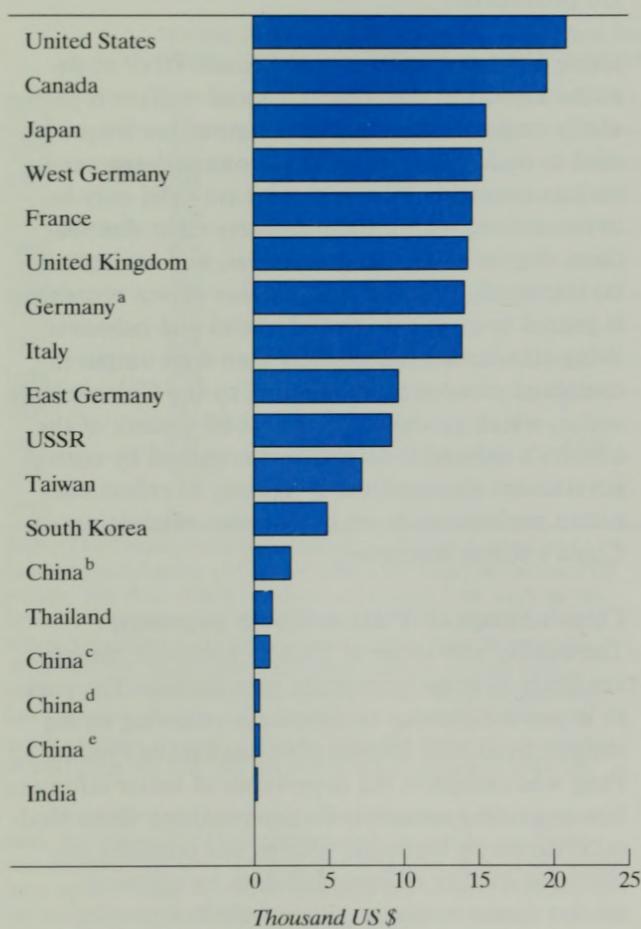
estimates have differed by as much as a factor of 10 because of the lack of an agreed-upon methodology for estimating GNP and because of the problem of correcting quality differences between Chinese and US production.

Using US dollar estimates of China's GNP to describe aspects of the country's social welfare is particularly suspect. Although GNP figures are frequently used to make standard-of-living comparisons among various countries, such analogies are valid only between nations with similar property right distributions, degree of market orientation, and environmental standards. Production in market-driven economies is geared to meet consumer demand and enhances living standards more directly than does output in command economies. Production by the Chinese state sector, which accounts for almost 60 percent of the country's industrial output, is determined by central government planners and is unlikely to reflect consumer preferences or make the most efficient use of China's scarce resources.

China's Future GNP Data: Slowly Improving

The quality and scope of China's economic statistics are likely to improve over the next decade. The push to improve collection techniques is receiving strong support from such leading policymakers as Premier Li Peng who recognize the importance of better information in guiding economic decision making. Even modest progress on economic reform will probably improve the quality of economic data by allowing market forces to play a greater role in adjusting relative prices, allocating resources, improving the quality of output, and influencing production schedules. Reform may also improve statistical reliability by "monetizing" more economic activity. Foreign exchange reforms that allow barter trade with the Soviet Union to be based on hard currency would improve estimates of an economic activity that is growing rapidly—border trade jumped one-third last year in Heilongjiang Province, which has the lion's share of Sino-Soviet barter trade, according to official statistics. In general, trade-sector growth will enhance Chinese economic data by producing a relatively larger portion of the economy that is measured directly in US dollars. Moreover, the increase in direct

Figure 6
International Comparison of 1989
Per Capita GDP



^a The weighted average of East and West German estimates.

^b Calculated by multiplying the Penn World (Mark 5) estimate for 1988 real GDP per capita by the 1989 official Chinese GNP growth rate and the US GNP deflator.

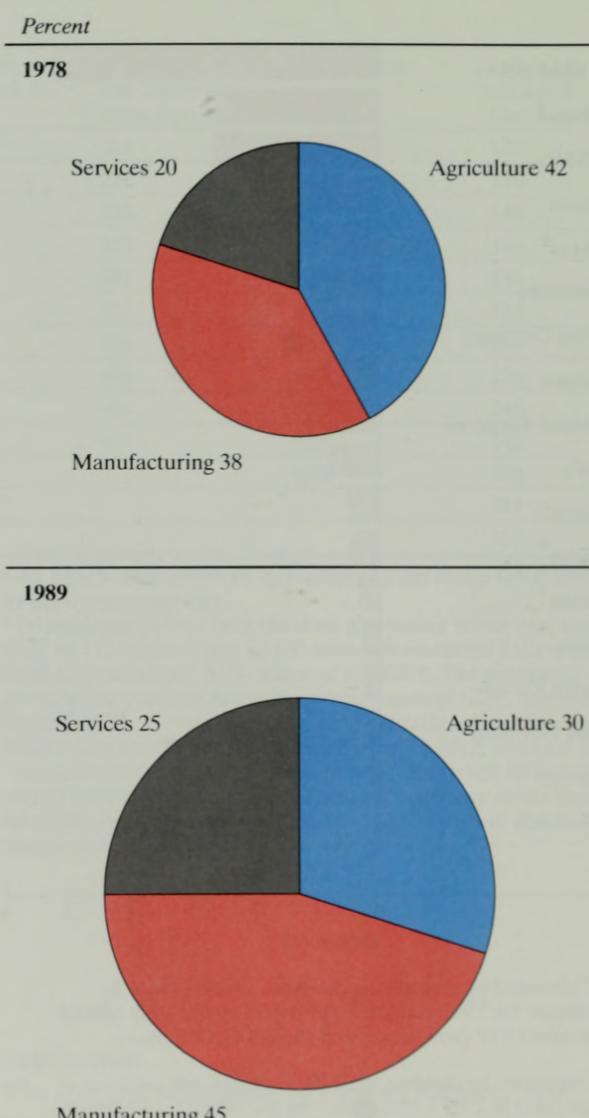
^c Calculated by dividing the 1989 Census GNP estimate -- expressed in 1981 US dollars -- by the official population estimate, then multiplying the figure by the appropriate US GNP deflators.

^d Calculated by multiplying the World Bank, Atlas Methodology, estimate for 1988 per capita GNP by the 1989 official Chinese GNP growth rate and the US GNP deflator.

^e Exchange rate conversion.

Source for Non-China estimates: Handbook of Economic Statistics

Figure 7
Changing Structure of China's Economy



Source: Census Study

foreign investment will provide a growing source of economic data that conform to Western accounting methods.

Although more reliable data will increase the quality of yuan-based GNP estimates, Beijing's increasing ability to cover sectors that have been poorly measured—such as the village and township enterprises, the domestic economy's fastest growing component—could initially inflate annual growth rates. Indeed, we believe that—although Beijing will probably more accurately account for inflation in the coming decade—because of the loose bookkeeping practices of many nonstate firms and because of their rapid and diversified growth, the quality of official estimates of this sector may not stabilize until near the end of this decade.¹² In addition, grain-to-livestock ratios suggest

that China's agricultural crop is significantly larger than official figures indicate. Thus, more accurate accounting of farm production also may tend to overstate growth rates.

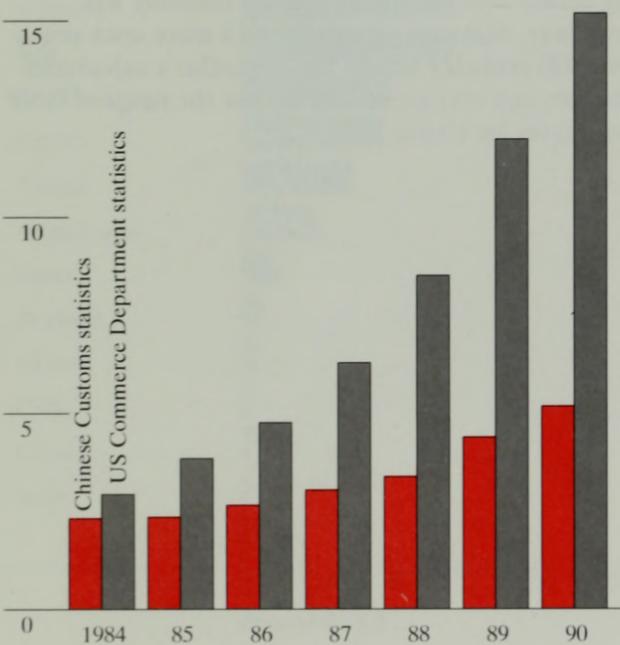
Finally, GNP comparisons based on anecdotal "evidence" of standard-of-living comparisons will continue to mislead because China devotes a relatively large share of resources to consumer goods. China's vibrant private sector will probably continue to specialize in producing food and consumer products, raising average quality of life toward that available in countries at similar levels of per capita income. Although scholarly debate over the size of China's economy will continue, higher quality data and a more open economy will probably reduce the researcher's calculation burden and may eventually narrow the range of GNP estimates for China.

¹² We believe that during high-inflation years in the 1980s the upward bias in growth rates caused by combining nominal and real production figures could have outweighed the downward bias caused by Beijing's failure to correctly measure all sectors of the economy. Over the next decade, Chinese statisticians will probably more accurately account for inflation; however, growth rates may continue to be artificially inflated as officials more accurately measure the dimensions of local, nonstate output.

Figure 8

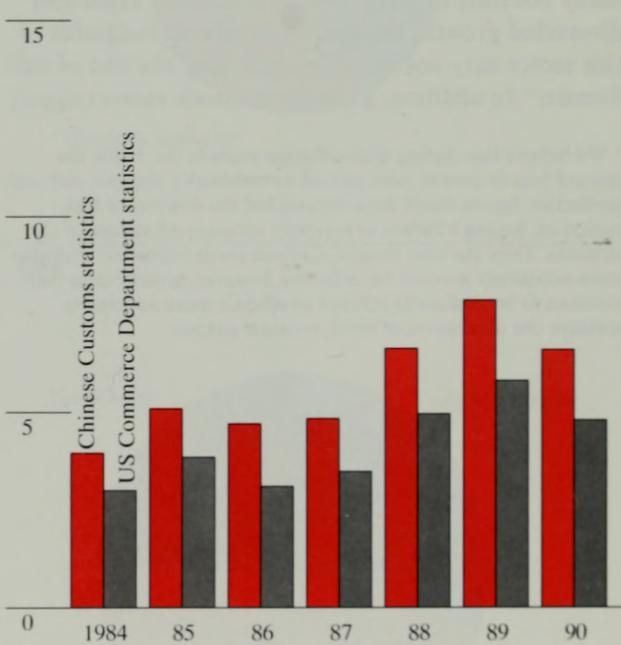
China's Exports to the United States

Billion US \$
20



China's Imports From the United States

Billion US \$
20



331308 7-91

Appendix B

China's Bilateral Trade Relations

The United States

The United States remains China's primary export market, accounting for 24 percent of Beijing's total foreign sales. China's exports to the United States soared 27 percent last year, as demand in China's domestic markets remained stagnant and Beijing offered preferential access to credit and raw materials to export-oriented enterprises and increased enterprises' incentives to export. Footwear exports to the United States more than doubled, posting sales of \$1.5 billion. Other labor-intensive manufactured goods such as televisions, stereo equipment, toys, and household appliances also continued to post strong gains in the US market. Sales of apparel increased almost 19 percent last year as China's apparel producers steadily moved into higher quality and higher priced articles. Apparel exports account for approximately one-fourth of total exports to the United States.

US exports to China fell 17 percent in 1990 to \$4.8 billion as Beijing's tighter import controls disproportionately affected US sales; China's global imports contracted only 10 percent. Beijing's reassertion of central management over 13 import products in mid-1989—grains, sugar, steel, fertilizers, crude and refined oil, rubber, timber, polyester fibers, tobacco, cotton, pesticides, and farm-use plastic sheeting—affected commodities that had accounted for roughly half of the total value of US exports to China the previous year. US grain exports—which accounted for nearly one-fifth of US exports to China in 1989—fell 55 percent last year. US sales of iron and steel plummeted 91 percent last year, declining by more than \$220 million.

The drop in US exports to China combined with China's strong export performance to boost the US trade deficit with China 67 percent last year to \$10.4 billion, according to US Commerce statistics. China's Customs statistics, however, indicate that China posted a bilateral deficit of \$1.4 billion. Both the US and Chinese trade statistics show parallel import and export trends over the past decade, however; the

shortfall in Chinese statistics is due largely to Beijing's not counting Chinese products reexported through Hong Kong. The United States tallies all goods shipped to and from China, regardless of whether they are shipped directly or through third parties such as Hong Kong.

US firms are likely to benefit from Beijing's increased demand for foreign capital and raw materials and from Beijing's desire to deflect US concerns about the trade imbalance. Chinese officials have stated publicly that they will halt the fall in imports from the United States. US exports to China registered an 11-percent increase during the first quarter of 1991 as a result of strong growth in US sales of fertilizer and raw materials; Chinese global imports have increased 15.5 percent to \$15.7 billion during the first five months of this year. Chinese exports to the United States increased 14 percent during the first three months, suggesting that the US trade deficit with China may increase to approximately \$12 billion in 1991.

Japan

Economic relations between China and Japan have largely returned to normal over the past year. During the Houston summit in July 1990, Prime Minister Kaifu announced the resumption of Japan's third yen credit—a loan package valued at \$5.7 billion that was sidelined following Beijing's crackdown on prodemocracy protesters in Tiananmen Square—designed to fund development projects in China over a six-year period beginning in 1990. Tokyo also advocated the early resumption of normalized lending to China by international bodies such as the World Bank and the Asian Development Bank. Japanese investment in China has also apparently picked up; during the first four months of 1991, Japanese businessmen signed over 100 new contracts in China, almost double the level of the same period last year. In 1990, the number of contracts approved involving Japanese

Figure 9
China's Trade With the United States

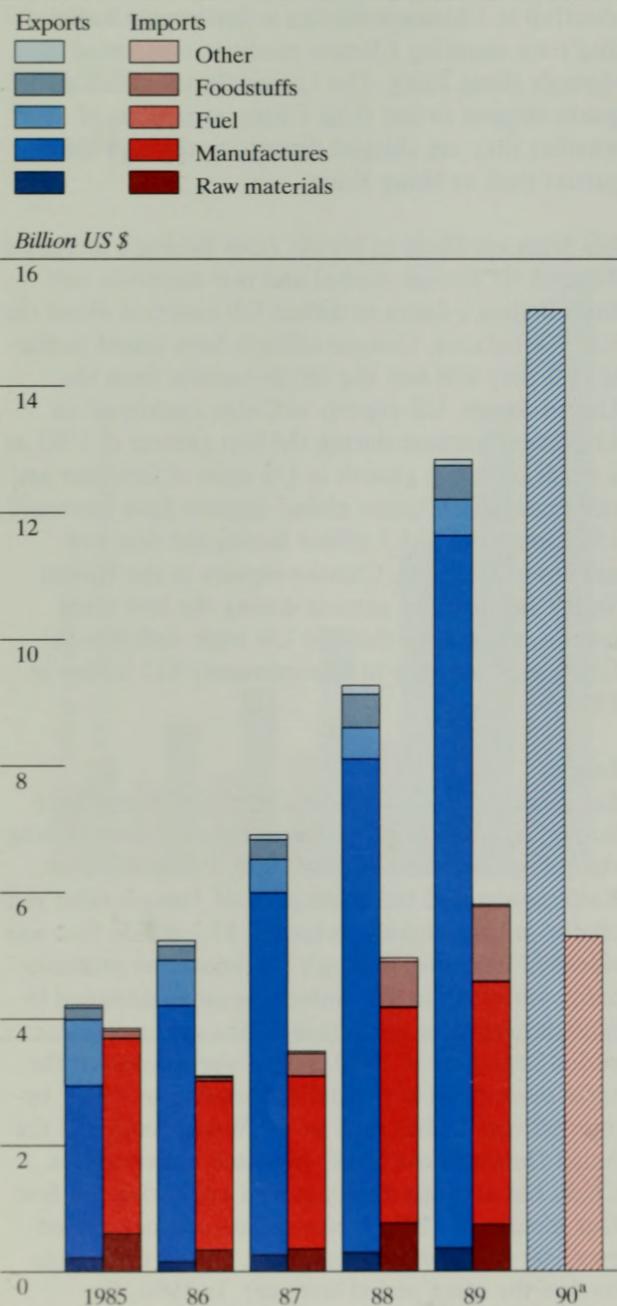
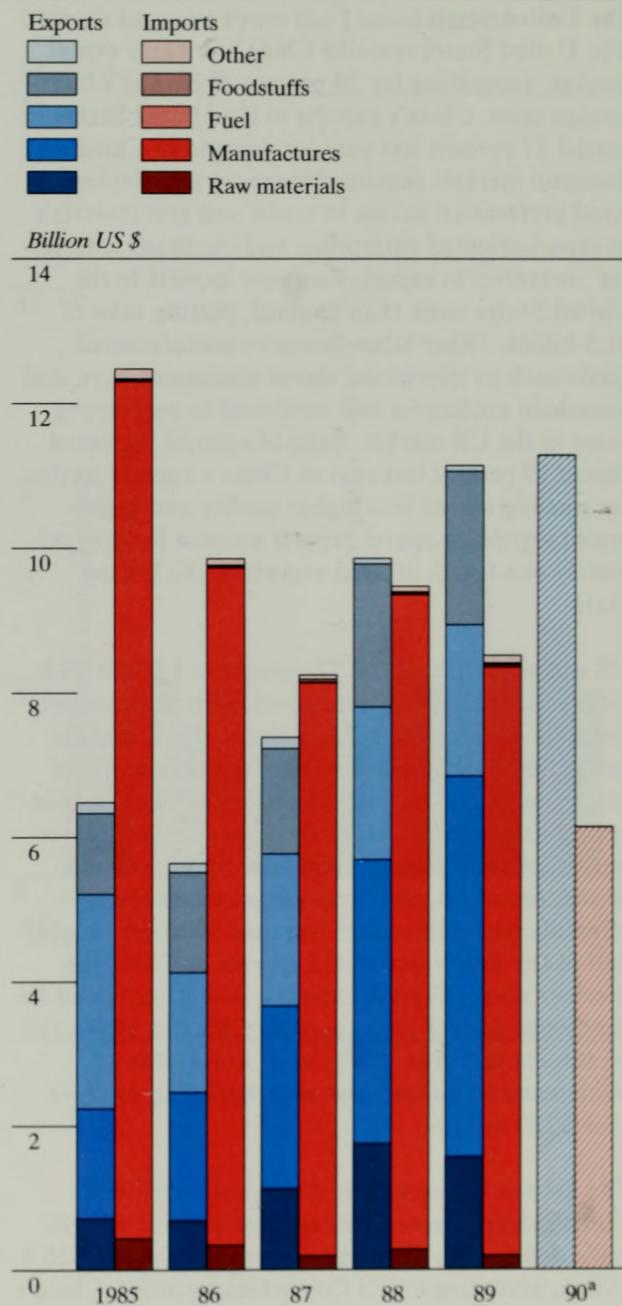


Figure 10
China's Trade With Japan



^aCommodity breakdown not available.

Source: UN trade data; exports f.o.b., imports c.i.f.

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^aCommodity breakdown not available.

Source: UN trade data; exports f.o.b., imports c.i.f.

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investors was 341, up 16 percent from 1989, while the value of these projects actually dipped 11 percent to \$457 million.

Both sides have tried to boost the relationship. Tokyo and Beijing agreed in December 1990 to a five-year extension of the long-term trade pact that has provided a framework for bilateral economic exchanges for more than a decade. The pact sketches out targeted levels of Chinese exports of oil and coal to Japan, as well as the transfer of Japanese technology and construction equipment to China. Japanese officials have expressed concern about their growing deficit with China, however, which reached nearly \$6 billion in 1990, according to Japanese statistics.¹³ The shortfall stemmed from a 28-percent decline in Japanese sales to \$6.1 billion, while at the same time China's exports grew by 7 percent to nearly \$12 billion.

Japan's exports to China are concentrated in sales of machinery and transport equipment, categories adversely affected by austerity-driven import restrictions. Beijing's purchases from Japan have started to pick up this year and will probably accelerate following the signing of a steel accord in June in which Beijing agreed to more than double the volume of Japanese steel it purchases in the latter half of the year.

The Soviet Union

Sino-Soviet trade grew only 9.6 percent last year to \$4.38 billion, as compared with the 23-percent gain posted in 1989, and barely exceeded the modest 8-percent target set in the 1990 trade protocol. More than half of China's exports to the Soviet Union last year were manufactures, of which 57 percent were textiles and apparel. After increasing steadily for several years, Soviet exports to China dropped slightly in 1990 as export restrictions on raw materials—China's primary import—increased; in 1990, Beijing's imports of fertilizer and timber accounted for more than one-third of China's total purchases from Moscow. Out-of-plan, cross-border trade between China and the Soviet Union, which began in 1988, has become an increasingly important source of economic

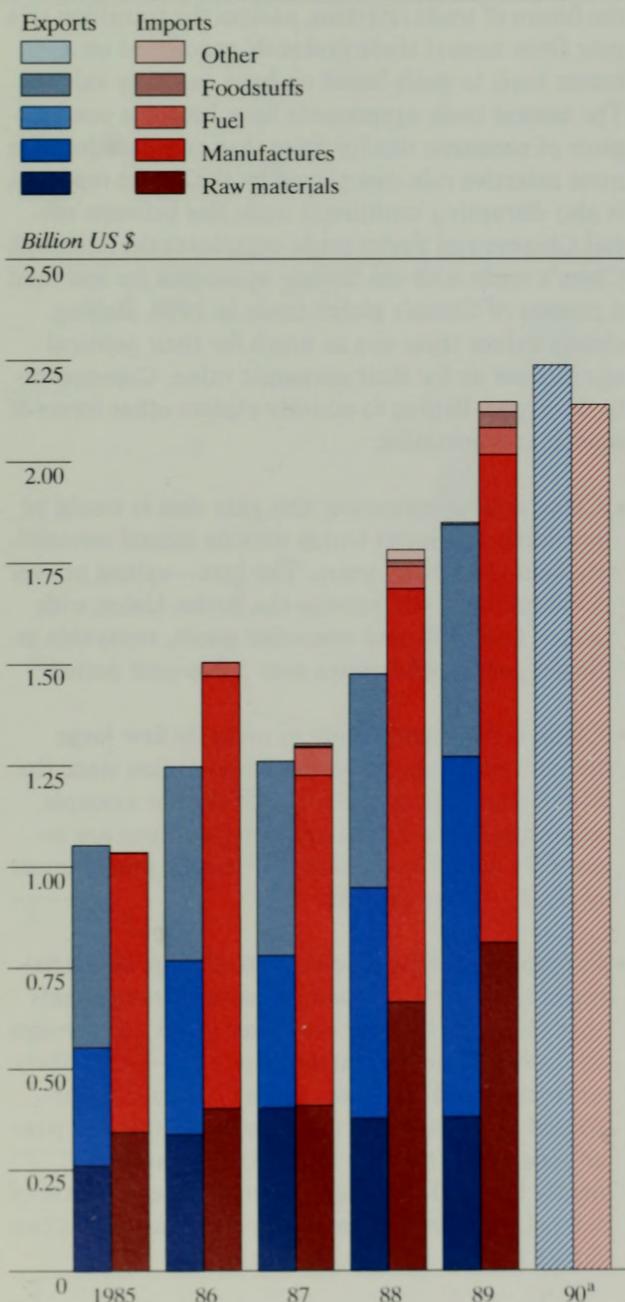
growth for China's border provinces; total trade transacted by a large number of small enterprises along the border amounted to about \$560 million in 1990.

The economic dislocations in the Soviet Union cloud the future of trade relations, as does the transition this year from annual trade protocols negotiated on a barter basis to deals based on hard currency values. The annual trade agreements have been the centerpiece of economic ties for more than two decades. The more assertive role now played by the Soviet republics is also disrupting traditional trade ties between official Chinese and Soviet trade organizations. Although China's trade with the Soviets accounted for less than 4 percent of China's global trade in 1990, Beijing clearly values these ties as much for their political significance as for their economic value. Consequently, we expect Beijing to actively explore other forms of economic cooperation:

- China announced earlier this year that it would be providing the Soviet Union with its second commodity loan in as many years. The loan—valued at over \$730 million—will provide the Soviet Union with scarce foodstuffs and consumer goods, repayable in Soviet goods and services over a five-year period.
- China is reportedly ready to make its first large military purchases from the Soviet Union since the Sino-Soviet split of the early 1960s. For example, according to the Soviet press, negotiations are reportedly at the final phase for Chinese procurement of Su-27 fighter aircraft.
- Cooperation in the development of large industrial projects—generally based on barter arrangements that exchange Chinese consumer goods and services for Soviet technology and equipment—is also likely to be expanded. In December alone, Beijing purchased under barter arrangements six thermal power generators from the Soviet Union valued at nearly \$1.5 billion. Negotiations for the purchase of several additional thermal generators, as well as two Soviet nuclear generators, continue.

¹³ Chinese statistics show a bilateral surplus on trade with Japan of only \$1.4 billion in 1990, with sales to Japan growing 7 percent to nearly \$9 billion, and imports of Japanese goods dropping 28 percent to \$7.6 billion.

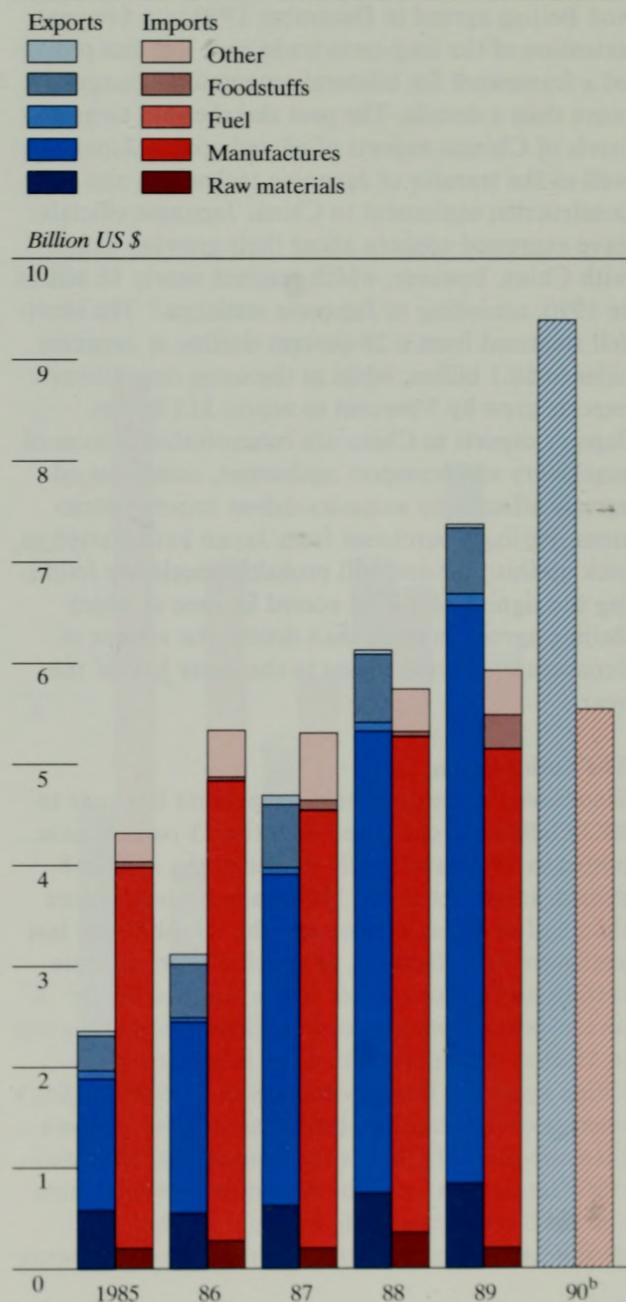
Figure 11
China's Trade With the Soviet Union



^aCommodity breakdown not available.

Source: Chinese Customs statistics

Figure 12
China's Trade With the EC-4^a



^aUnited Kingdom, West Germany, France, Italy.

^bCommodity breakdown not available.

Source: UN trade data; exports f.o.b., imports c.i.f.

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- Beijing is also likely to push Chinese labor exports to the Soviet Union this year. According to the Chinese press, more than 40,000 Chinese workers have been sent to the Soviet Union thus far, and more than 10,000 are currently working there.
- Joint ventures will also be encouraged. In July 1990, Beijing and Moscow signed agreements to protect investments in each other's country and to avoid double taxation. According to the Chinese press, 20 Sino-Soviet joint ventures are currently operating in the Soviet Union, three in China, and negotiations are under way for approximately 100 additional projects.

Although these measures are likely to preclude a severe downturn in Sino-Soviet economic ties—and thus preserve the appearance that bilateral relations remain intact—over the longer term a failure to move away from barter could prevent more efficient trade. Chinese firms in Sino-Soviet trade will feel little pressure, for example, to improve the quality of the goods they produce, suggesting that these items will not become competitive on international markets. Moreover, China is likely to continue to prefer Soviet raw materials—which represent very little value added from the Soviet perspective—to manufactured goods.

The Economic Community-4

The four primary European Community countries—the United Kingdom, Germany, France, and Italy—have collectively posted a trade deficit with China

since 1988; between 1988 and 1990, the EC-4 trade imbalance with China tripled to \$3.85 billion. More than three-fourths of China's exports to the EC-4 are composed of manufactures—primarily consumer goods and textiles—while machinery represents approximately half of China's imports from the EC-4.

Germany has the strongest trade ties to China among the EC-4, with total trade last year registering nearly \$6.6 billion. Germany's imports from China increased 41 percent to almost \$4.4 billion while exports to China fell 10 percent to \$2.2 billion. Total trade between Italy and China increased 17 percent in 1990; exports to China increased 30 percent to \$1.6 billion, and imports from China increased 7 percent to \$1.8 billion. French exports to China declined 40 percent to \$930 million, and Chinese exports to France rose 25 percent to \$2.1 billion as total trade between France and China fell almost 6 percent last year. Total trade with the United Kingdom increased 19 percent to more than \$1.8 billion in 1990, with a 21-percent increase in China's exports to the United Kingdom and a 16-percent increase in UK exports to China.

Appendix C

Measures Adopted To Strengthen Central Control Over China's Trade Sector, 1988-91

Over the last few years, Beijing has reasserted central authority over trade. The following chronology outlines some of these controls:

January 1988

Beijing requires import licenses for 53 commodities, according to an article in the Chinese press published in May 1990. The list includes steel, lumber, rubber, petroleum, wool, wood pulp, sugar, plywood, civil aircraft, electronics, instruments, automobiles, televisions, camcorders, and processing equipment. The commodities reportedly account for 45 percent of China's total imports. The Ministry of Foreign Economic Relations and Trade (MOFERT) will issue licenses for 16 categories; authorized provincial and municipal branches of MOFERT may issue licenses for the other categories. For purchases not specified in the state import plan, units applying for licenses must obtain consent from the Bank of China to use their foreign exchange. If the desired import is produced domestically, the unit must present documents from the ministry producing the substitute certifying that an import is required.

Beijing announces list of 173 products requiring export licenses. MOFERT must issue the licenses for 29 commodities, primarily resources, price-sensitive commodities that have a limited foreign market, or products subject to foreign quotas. MOFERT offices in port cities may issue licenses for 62 commodities, primarily animal products. Provincial and municipal branches of MOFERT issue licenses for 82 commodities.

2 February 1988

Beijing implements new administrative rules governing the registration and testing of foreign drugs in China.

29 April 1988

The Ministry of Machine-Building and Electronics Industry (MMBEI) approves 100 products developed by the aeronautics industry as import substitutes, in effect banning imports of the products.

12 August 1988

Beijing raises duties on imports of color televisions and motorcycles to over 300 percent.

15 September 1988

Beijing doubles the customs duties on imports of consumer appliances—such as washing machines, radios, and cassette players—to 100 percent.

22 September 1988

China recentralizes control over silk imports and exports.

1 January 1989 MOFERT bans exports of copper, nickel, aluminum, platinum, yellow phosphorus, and their alloys. In addition, Beijing adds 16 items to the list of commodities that require export licenses: newsprint paper, bone dust, polystyrene, polypropylene, ABS resin, chromium ore, molybdenum ore, ferrochrome, ferromanganese, magnesium metal, manganese metal, methylbenzene, dimethylbenzene, rubber, salted pine mushrooms, and Chinese medicinal herbs.

14 January 1989 The China Tobacco Import and Export Corporation requires import licenses for cellulose acetate filter tips used in manufacturing cigarettes.

25 January 1989 MOFERT sets up a new body, the Import and Export Permit Administration, to tighten control over the granting of import and export licenses.

February 1989 Beijing raises import tariffs on 45 items and reduces rates on two items; it also reduces export tariffs on silk and adds four nonferrous metal products to the list of nine export goods that require export tariffs.

1 February 1989 Beijing centralizes control over pesticides production and sales.

MOFERT announces plans to reduce by one-third the number of corporations authorized to import wool in order to curb competition for imports that had bid up purchase prices.

10 February 1989 Beijing designates China National Ferrous Metals Company sole agent for importing cold-rolled steel, carbon-sintered steels, tin-coated steel, and zinc-coated steel sheets.

20 February 1989 Beijing announces that the importation of foreign cigarettes and liquor will be banned.

16 March 1989 Beijing hikes duties on imports of refrigerators and refrigerator components.

19 March 1989 The State Planning Commission announces an import quota system for timber imports and that purchases are to be reduced 40 percent; quotas are to be allocated to local governments, which can then determine what kind of timber they wish to buy.

6 April 1989 Li Peng announces that the importation of all luxury cars is banned.

Beijing announces that no additional joint ventures producing canned beverages will be authorized, and that import licenses for canned beverages will no longer be granted.

24 April 1989 Beijing imposes strict controls over the importation of color television components and levies a special consumer tax on domestic TV sales.

26 April 1989 Beijing strengthens inspection, approval, and management of imports of electromechanical products to encourage the substitution of domestic products.

1 May 1989 Beijing requires quality licenses for imported products that involve safety, public health, and environmental protection, including automobiles, motorcycles, motorcycle engines, refrigerators, refrigerator compressors, air conditioners, air conditioner compressors, color television sets, and kinescopes.

14 May 1989 Guangdong Province bans imports of cigarettes, alcohol, cosmetics, canned foods, frozen fish, meat, fruit, candies, biscuits, vegetables, clothing, shoes, scented soap, shampoo, beverages, household electrical appliances, and plastic daily essentials.

June 1989 Guangdong officials confirm that restrictions exist on the importation of electric power generating equipment.

1 June 1989 MOFERT creates the Plywood Import Coordination Group consisting of nine corporations with the exclusive right to import plywood. Only three among the nine can participate in price negotiations.

6 June 1989 Beijing announces exports of copper, zinc, lead, manganese, iron, and nickel must be reported to the China Nonferrous Metals Import and Export Corporation for examination and approval.

10 June 1989 Beijing requires export licenses for six metal ores—copper, zinc, lead, manganese, iron, and nickel—with approval granted by one of two central bodies.

27 June 1989 MOFERT empowers the Plywood Import Coordination Group to negotiate and sign all contracts for the importation of plywood.

4 July 1989 Beijing requires import licenses for purchases of refrigerators, air conditioners, and video recorders.

13 July 1989 MOFERT extends central management to 13 kinds of imports (“Category 1 goods”) to control competition among importers. Products that may be imported only by state-owned specialized foreign trade corporations include grains, sugar, steel, fertilizers, crude and refined oil, rubber, timber, polyester fibers, tobacco, cotton, pesticides, and farm-use plastic sheeting.

Beijing announces the formation of "import coordination groups" to unify negotiations with foreign suppliers over import prices for other controlled products ("Category 2 goods"). The products in this category include wool, wood pulp, plywood, kraft paper, corrugated paper, cigarette filters, chemical materials, scrap ships, and TV tubes.

22 July 1989 Beijing further recentralizes imports of canned drinks, imposing 40-percent tariffs on imports of materials used in the production of pop-top cans. In addition, government institutions, mass organizations, and enterprises are prohibited from using public funds to purchase canned drinks.

24 July 1989 Beijing requires import licenses for 22 medicinal products and export licenses for seven traditional Chinese medicinal products.

25 July 1989 MOFERT revokes the import rights of seven wool importers, requiring representatives from the companies to form an import coordination group to conduct unified negotiations.

1 August 1989 MMBEI bans the importation of 20 electronic and machinery products, including computer hardware, TV sets, tape recorders, video equipment, VCR units, and integrated circuits. The ministry also restricts imports of assembly lines for televisions, tape recorders, fiber-optic and microwave communications equipment, printed-circuit boards, and other electromechanical products.

4 August 1989 Beijing adds 106 goods in 44 different categories to the list of items subject to inspection.

11 August 1989 Beijing raises import duties on six items—coffee, syrup, vacuum cleaners, electronic games, cosmetics, and soap—and levies export duty rates of 50 percent against lead and zinc exports.

22 August 1989 Beijing requires export licenses for computers and peripheral equipment. The State Council reportedly issues a secret directive that future contracts for telephone switches be reserved exclusively for Siemens (Germany), Alcatel (France), and NEC (Japan), in effect banning US companies. Information about the directive is leaked to a US telecommunications firm and subsequently published by a Western business journal in late 1990.

28 August 1989 Beijing imposes new standards for the inspection of guidelines for TV imports.

1 September 1989 Beijing increases tariff levels for various imports: medical instruments, scientific research apparatus, medicines, drugs, and perfumes are subject to 20-percent tariffs; household appliances (excluding VCRs), cameras, watches, bicycles, textile products, and cosmetics to 100 percent; VCRs and motorcycles to 150 percent; cigarettes, liquor, and limousines to 200 percent.

21 September 1989 Beijing limits the right to export canned mushrooms to 18 approved entities.

October 1989 China Animal and Plant Quarantine Headquarters imposes strict controls on imports of all tobacco leaf as a result of the detection of live tobacco blue mold on a shipment of Greek oriental tobacco. The regulation is not publicized.

23 October 1989 Beijing publishes a list of 148 varieties of import commodities subject to inspection under a new commodity inspection law to be implemented on 1 May 1990.

26 October 1989 Guangdong Province establishes minimum export prices for 29 goods, including lithopone, yuanming powder, potassium permanganate, cassia, cassia oil, paper products, cattle hides, feather and down, rattan products, black wood furniture, red bricks, sea sand, freshwater sand, canned fish, soy sauce, lychee, mandarin oranges, shelled peanuts, sesame, dried rice vermicelli, blanched peanuts, electric fans, fluorescent lamp stands, glazed wall tiles, pocket knives, padlocks, plastic products, mosaic, and precious ink stone.

4 November 1989 The State Administration of Technology Supervision requires three levels of approval for imports of measuring devices: design approval, import approval, and inspection.

28 November 1989 Beijing centralizes exports of tungsten, giving sole trading rights to three corporations.

1 December 1989 Beijing raises import tariffs on film for medical and scientific uses and on certain printed circuits, eliminates export duty on prawns, and introduces an export tax of 50 percent on tin and tin concentrate.

15 January 1990 Beijing raises tariffs on consumer goods such as coffee, sweetener, cosmetics, soap, electronic games, and small vacuum cleaners.

17 January 1990 The Ministry of Agriculture stipulates that all organic and inorganic fertilizers, soil conditioners, and plant-growth-regulating agents must be inspected and registered before importation.

25 January 1990 Beijing reduces import tariffs on cattle hides and raw materials for tire production, and eliminates a 50-percent import regulatory tax on television picture tubes.

13 February 1990 The State Planning Commission approves new import restrictions on building materials such as marble, granite plates, certain types of glass, plastic carpeting, plastics, glass fiber, flax or cotton wallpaper, wall or floor bricks, plaster stone plates, and aluminum alloy doors and windows.

22 February 1990 The State Council promulgates regulations requiring MOFERT to submit applications for import and export of 20 types of materials to the Ministry of Materials.

24 February 1990 Beijing recentralizes exports of paraffin wax.

26 February 1990 Beijing bans exports of yellow phosphorous and polyvinyl chloride.

April 1990 Beijing bans the importation of small-scale electric power-generating equipment.

May 1990 Beijing requires quality licenses from the State Administration of Import and Export Commodity Inspection for nine additional imported commodities: automobiles, motorcycles and their engines, refrigerators and air conditioners and their compressors, television sets, and kinescopes.

1 May 1990 Beijing increases the number of products subject to export licensing from 173 to 185. Additional products include canned broad beans and asparagus, walnuts, sorghum, rabbit meat, cotton liners, silicon-manganese alloys, and certain pharmaceuticals.

1 June 1990 Beijing raises the range of import tariffs on certain film-developing chemicals from 25 to 35 percent to 80 to 100 percent and reduces the export tax on certain ferroalloys from 50 to 20 percent.

August 1990 The Ministry of Chemical Industry announces it will limit the amount of fertilizer imported and require an import license for each purchase.

1 September 1990 Beijing raises duties on 11 items, including chemicals, pesticides, and pharmaceuticals. These increases followed lobbying by Chinese manufacturers who faced growing inventories of chemicals because sales to the domestic market dropped as a result of the economic slowdown. Tariffs on metal containers for compressed or liquefied gas were raised from 12 to 17 percent to 50 to 70 percent, and those on ultrasonic equipment were raised from 12 to 17 percent to 25 to 35 percent. The tariffs on certain optical lenses were reduced from 30 to 40 percent to 12 to 17 percent.

October 1990 Beijing increases tariffs on seven chemicals, pesticides, and medical instruments.

20 November 1990 The Customs Tariff Commission of the State Council raises duties on seven imported commodities, including soybean oil, sesame oil, rapeseed oil, palm oil, palm kernel oil, and coconut oil. The change is undertaken to raise prices on imported goods, which were lower than domestic vegetable oil prices.

10 January 1991 The Customs Tariff Commission announces increased import tariffs on nine commodities to promote industrial production. The products include air-conditioners, walkie-talkies, pagers, and sorbitol. Tariffs are simultaneously lowered on 40 imported commodities, including chemical fertilizers and some raw materials related to agricultural and industrial production.

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